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THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D. C. 20505

National Intelligence Officers

3 November 1978

MEMORANDUM FOR: Director of Central Intelligence

VIA : Director, National Foreign Assessment Center

A FROM : [redacted]
National Intelligence Officer for the Near East and South Asia

SUBJECT : PRC Meeting on Iran, 6 November 1978

1. Action Requested: None; for your information.

2. Background: Attached are the following papers related to the situation in Iran:

Tab A: Current Situation.

Tab B: Impact of Iranian oil strikes.

Tab C: Your Memorandum for the Record, "Meeting with Dr. Brzezinski, 27 October 1978".

ORPA's answers to the questions raised by Dr. Brzezinski concerning the Shah's opposition.

Tab D: Background on the National Front.

Tab E: Available information on foreign involvement in domestic strife.

Tab F: US business in Iran.

Tab G: Possible role for the World Bank.

 25X1A

Tab H: [redacted] 25X1C

Tab I:

25X1C

Tab J: Value of [redacted] options for replacement. 25X1C

Tab K: Collection capabilities and prospects for improvement:

[redacted] 25X1D

25X1C

Tab L: [redacted]

3. We understand that you will be asked to open the PRC meeting with an update on current developments in Iran. On Monday morning we will provide you with the latest traffic and suggested talking points.

[redacted] 25X1A

 25X1A

TAB

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3 November 1978

The Current Situation

I. The Shah's efforts to modernize Iran have unleashed unexpected strong forces of reaction that are not being contained by martial law or piecemeal concessions to the opposition.

A. The Shah must act quickly and resolutely in reaching an accommodation with his moderate political and religious opponents if he is to stem the tide running against him. He is ready to give up some of his power but perhaps not enough to satisfy his opponents.

B. Civil disorders and the crippling strike in the oil industry are likely to continue until the Shah reaches a settlement with the opposition.

1. The Shah, at an early date, will appoint another civilian government to replace that of Prime Minister Sharif-Emami whose efforts to reach a settlement with the Shah's opponents have failed.

2. The Shah would like to have a new government installed before 2 December when the Muslim month of mourning begins.

3. Disorders could get totally out of control in December unless the Shah and his opponents reach an accommodation.

C. The Shah says he is willing to try to reach a durable settlement through a political compromise. Military rule according to the Shah, would only bring more bloodshed and would not be a long-lived solution.

1. If efforts to form a government of national reconciliation fail, however, the Shah is likely to opt for military rule as the only alternative to abdication.

Tab A

D. The coalition government that the Shah is considering is one that would include opposition figures. The press reported today that the Shah will meet shortly with Karim Sanjabi, a National Front leader, presumably to discuss the formation of a coalition government.

1. The Shah foresees tough negotiations with moderate opponents who will not move without the grudging acquiescence to a settlement of Muslim extremist Khomeini, exiled in Paris. Khomeini is by far the most influential religious leader among Muslim dissidents. In his latest interview with the press, Khomeini insists the Shah must go.

2. If Khomeini continues to refuse to go along, the Shah would persist in his effort to isolate religious extremists and work with the moderate opposition. Prospects for success of efforts to isolate Khomeini are dim, however.

E. The Shah is confident that his senior military commanders would support any coalition government he appoints.

1. We believe, however, that the loyalty of senior officers, some of whom have bridled at government concessions to the opposition, will require close watching.

TAB

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IMPACT OF IRANIAN OIL STRIKES

I. Current Situation

A. Striking oil workers apparently failed to return to work on 4 November despite the government's ultimatum.

1. As of 4 November, Iran's crude oil production was running at about 1.85 million b/d; prestrike output was more than 6 million b/d.

a. Industry sources say output will remain at about 1.8 million b/d until the strikes are settled, and two weeks or more will be needed after a settlement to restore production to prestrike levels.

b. The most severe labor problems are in the oilfields, particularly the four largest fields that normally account for two-thirds of Iran's oil output.

c. Gas shipments from these fields to the Soviet Union have ceased.

2. As of 4 November, crude oil exports were running at about 1.2 million b/d, compared with the prestrike level of about 5.5 million b/d.

a. During the early days of the strike, about two-thirds of exports were being loaded at Kharg Island, which normally handles 4 to 5 million b/d. By 4 November more than 90 percent of exports were being shipped from Kharg as additional walkouts occurred at the offshore joint ventures.

b. A large backlog of tankers is now waiting to load, and lifters of Iranian crude have curtailed deliveries.

B. Domestically, household supplies of petroleum products were threatened by a resumption of the strike by employees of the distribution system in Tehran. Moreover, throughput at the major Abadan refinery was only 200,000 b/d as of 4 November, about one-third of capacity, endangering supplies to the industrial sector.

C. Government efforts to end the oil strikes continue.

1. The government's response to strikers throughout the economy has been conciliatory. But wage and benefit

IMPACT OF IRANIAN OIL STRIKES

I. Current Situation

A. Tehran has ordered striking oil workers back on the job and has moved the military to protect oil facilities and returning workers. Some workers apparently are complying.

1. As of 1 November, Iran's crude oil production had been cut to about 1.8 million b/d; prestrike output was more than 6 million b/d.

a. Industry sources say output will remain at about 1.8 million b/d until the strikes are settled, and two weeks or more will be needed after a settlement to restore production to prestrike levels.

2. As of 1 Novmeber, crude oil exports were running at about 1.1 million b/d, compared with the prestrike levels of about 5.5 million b/d.

a. About two-thirds of the exports were being loaded at Kharg Island, which normally handles 4 to 5 million b/d.

b. Exports from Kharg surged to 1.4 million b/d for a 24-hour period ending on 1 November as most of the remaining oil in storage at Kharg was drawn down.

c. A large backlog of tankers is now waiting to load, and lifters of Iranian crude have curtailed deliveries.

B. The most severe labor problems are in the oilfields, particularly the four largest fields that normally account for two-thirds of Iran's oil output.

1. These fields ~~are~~ have also sent natural gas by pipeline to the Soviet Union. Such gas shipments have ceased. *

C. Government efforts to end the oil strikes continue.

1. The government's response to strikers throughout the economy has been conciliatory. But wage and benefit

* 1.4 billion ft³/day, which represents 3 to 4% of Soviet natural gas consumption.

Tab B

hikes as high as 50 to 100 percent given to some groups have led additional workers to go out.

[redacted]

25X1

3. The government is trying to isolate the resisting workers from their more amenable colleagues. A back-to-work order is being delivered on a unit-by-unit basis. Workers who fail to report are threatened with dismissal.

II. OPEC Supply Availability

A. Unused OPEC capacity outside of Iran stood at about 5 million b/d at the end of September. One of the tables that has been passed out shows our production and capacity estimates.

1. About half of this unused capacity would have been needed in any event to meet fourth-quarter demand. Purchases normally increase in the winter. Moreover, demand was already increasing in anticipation of an end-of-year OPEC price increase.

2. Most of the remaining unused capacity -- located in Saudi Arabia, Kuwait, and Abu Dhabi -- probably is not readily available as a substitute for Iranian oil. For a variety of technical, economic, and political reasons, each of the three has imposed below-capacity ceilings on output.

3. Even if all three were to lift restraints on production, at least two months would be required to bring a large share of additional capacity on line.

B. Sustainable oil production in Saudi Arabia, excluding the Neutral Zone, is estimated by Aramco at 10.4 million b/d. Aramco is operating under a set of production rules, however, that will limit fourth-quarter production to about 9 million b/d if they remain in force.

1. Aramco output has surpassed 8.5 million b/d by early November, and Aramco was forecasting fourth-quarter output of almost 9 million b/d. Hence, there is little room for increase within the Saudi ceiling.

2. The Saudis apparently were going along with the higher fourth-quarter levels even before the Iranian strikes.

a. They may have been trying to keep the market slack to hold down the OPEC price hike.

b. They may also have wanted to demonstrate -- in the face of the US Congressional investigation -- that there are no technical impediments to expansion.

Saudis 1.4 mbd

3. Aramco parent companies say they have decided not to approach the Saudis about a further increase because they foresee refusal.

X1C

4. [redacted] believe that the Saudis might agree to a temporary increase -- if approached at the highest level -- because they want to avoid a large OPEC price increase in January.

5. We believe that the Saudis might also be sympathetic to a request for cooperation in the new US dollar support effort.

6. It is worth emphasizing, however, that even if the Saudis lifted all restrictions, we do not believe they could approach rated capacity -- 10.4 million b/d -- for several months.

C. Kuwait and Abu Dhabi have already been asked by oil companies to expand output during the Iranian strike.

Kuwait 1.0 / Abu .5

1. Kuwait, with about 1 million b/d of unused capacity, responded that it would not increase output before OPEC revealed its decision on a price increase. (Kuwait is a leader of the price hawks.)

2. The response from Abu Dhabi, with another half million b/d of unused capacity, is not yet known.

3. Either might be more receptive to an approach at the political level.

D. The other nine OPEC countries -- Venezuela, Iraq, Libya, Indonesia, Nigeria, Algeria, Qatar, Gabon, and Ecuador -- would be producing close to capacity in the fourth quarter in any case. Spare capacity is small.

III. Other Supplies

.5

A. Outside OPEC, not more than 500,000 b/d excess capacity is believed to be available.

.6

B. The US and Japan together are importing about 600,000 b/d for strategic stockpiles that could be diverted to cover current demand.

4.0

IV. Stocks

A. Free World oil stockpiles at the end of September were about 3.8 billion barrels, 74 days of normal consumption.

1. One-half of these stocks could be drawn down in an emergency. The remainder (as well as oil in transit) is needed to keep the distribution system running smoothly.

B. While the amount that could be drawn down is equal to nearly a year of Iranian production, consumers have shown strong reluctance to draw down inventories during an emergency.

V. Impact on World Market

A. Thus, we expect the loss of Iranian oil exports to further tighten the short-term oil market.

1. Spot market prices spurted and supplies dried up when news of the Iranian cutbacks broke out.

2. But the inventory situation means that market activity in the near term will reflect speculative buying more than real shortages.

B. Even if the strike lasts only a few more days, the impact will spill over at least into early 1979. Buyers will have a harder time purchasing the amount of oil they want in late 1978. After the shock of recent events in Iran, companies will want to keep inventories high next year as a hedge against further trouble.

C. If the strike is sustained and other OPEC suppliers are unwilling or unable to make up the gap, the market impact will be severe. Companies will have to turn to prorationing. A cold winter would compound the economic and political consequences.

D. On the other hand, even if other OPEC deliveries are not increased, a complete shutoff of oil exports from Iran would have to continue unabated for more than six months to produce the same total loss of oil to world markets as during the 1973/74 embargo.

E. In some respects, oil-consuming countries are better able to withstand a supply interruption similar to the embargo.

1. Stocks are higher.

2. The International Energy Agency has a standby oil-sharing scheme.

3. Companies are experienced in spreading supplies.

F. But the ability of the major consuming countries to easily reduce oil consumption is probably less; the quick savings have already been realized.

G. As shown on the second table, South Africa and Israel have the heaviest import dependence on Iranian oil. But both -- especially South Africa -- have sizable oil stockpiles. Spain, The Netherlands, Japan, Italy, and the United Kingdom also rely to a significant degree on Iranian oil. These nations will be looking hard to find alternative supplies.

VI. Influence on OPEC Price Deliberations

A. The tightening of the oil market should strengthen OPEC price hawks. A majority of OPEC nations have been arguing for a price increase of at least 10 percent for January 1979. Only Saudi Arabia, Iran, and the UAE had indicated a willingness to support a lower price increase.

B. In Iran, high wage settlements and lost oil revenues are new reasons to support the larger increases.

1. The Iranians still do not want to split with the Saudis but indicate they are now willing to go for up to 10 percent.

2. Politically, the Shah may benefit from taking a stand -- i.e., a substantial price increase -- that appears to demonstrate independence of the United States.

C. The Saudis have made no final decision on a price increase. In the face of recent events, however, they may be more willing than before to agree to 10 percent.

VII. The Iranian Economy

A. The Iranian economy, which was virtually stagnant throughout 1977, has been sent reeling by the month-long series of strikes. Even if they are settled soon, it will be many months before the effects work their way through the economy.

1. The current account surplus will fall from $4.6 million in 1977 to about $1.6 million for 1978. It almost certainly will go into substantial deficit in 1979 (when payments for today's lost oil revenues normally would be received) unless the OPEC price increase is more than 10 percent.

2. Increased wages and benefits for oil workers and other public-sector employees will add several billion dollars to the Iranian budget this year and next. Deficit spending and increased paychecks will refuel inflation, which had been slowed during the first half of 1978.

3. Industrial production has already been curtailed by the strikes. The wage settlements will add to already high costs, and Iranian industry will need further government assistance even to retain domestic markets.

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OPEC: Crude Oil [1] Production and Capacity

Thousand b/d

		September 1978		4th Quarter 1978
	Maximum Sustainable Capacity	Production	Underutilized Productive Capacity	Estimated Available Capacity
Total	36,905	31,620	5,285	27,090-28,090 [2]
Iran	6,500	6,060	440	?
Saudi Arabia	10,400	8,050	2,350	8,700-9,000
Kuwait	3,000	2,150	850	2,200-2,600
United Arab Emirates	2,375	1,830	545	1,860
(Abu Dhabi)	(1,965)	(1,450)	(515)	(1,460)
Iraq	3,000	3,000	0	2,700-3,000
Venezuela	2,600	2,270	330	2,600
Libya	2,300	2,100	200	2,300
Nigeria	2,300	2,120	180	2,300
Indonesia	1,700	1,590	110	1,700
Other, including Neutral Zone	2,730	2,450	280	2,730

[1] Excluding an estimated 675,000 b/d of natural gas liquids production in OPEC, 45,000 b/d of which is from Iran.
[2] Total estimated available capacity, excluding Iran.

Major Importers of Iranian Oil, 1977

	Thousand b/d		
	Consumption [1]	Imports from Iran	Imports as a Percent of Consumption
South Africa	300 [2]	240	80
Israel	135	100	74
Netherlands [3]	745	270	36
Spain	943	220	23
Japan	5,401	870	16
Italy	1,893	293	15
United Kingdom	1,809	259	14
France	2,286	189	8
United States	18,418	786	4

[1] Including bunkers.
[2] Estimated.
[3] The Netherlands is a large oil export refining center. Imports from Iran as a share of total supply amounted to about 20 percent in 1977.

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